

VZCZCXYZ0000  
RR RUEHWEB

DE RUEHNJ #0882/01 1781434  
ZNY CCCCC ZZH  
R 271434Z JUN 06  
FM AMEMBASSY NDJAMENA  
TO RUEHC/SECSTATE WASHDC 3978  
INFO RUEHUJA/AMEMBASSY ABUJA 1188  
RUEHDS/AMEMBASSY ADDIS ABABA 0803  
RUEHBP/AMEMBASSY BAMAKO 0670  
RUEHDK/AMEMBASSY DAKAR 1105  
RUEHKH/AMEMBASSY KHARTOUM 0253  
RUEHLO/AMEMBASSY LONDON 1455  
RUEHNM/AMEMBASSY NIAMEY 2725  
RUEHFR/AMEMBASSY PARIS 1849  
RUEHYD/AMEMBASSY YAOUNDE 1247  
RUEHNR/AMEMBASSY NAIROBI 0584  
RUEATRS/DEPT OF TREASURY WASHINGTON DC  
RUCNDT/USMISSION USUN NEW YORK 809  
RUEHGV/USMISSION GENEVA 0746  
RUEHBS/USEU BUSSELS

C O N F I D E N T I A L NDJAMENA 000882

SIPDIS

SIPDIS

DEPT. FOR AF, DRL, PRM, S/CRS  
LONDON AND PARIS FOR AFRICA WATCHER  
NAIROBI FOR OFDA  
TREASURY FOR OUSED

E.O. 12958: DECL: 06/26/2016  
TAGS: [EFIN](#) [ECON](#) [EAID](#) [EPET](#) [KDEM](#) [PREL](#) [PGOV](#) [KCRS](#) [CD](#)  
SUBJECT: CHAD: CREDIBLE OIL REVENUE MANAGEMENT PROGRAM IN  
DOUBT

REF: NDJAMENA 867

Classified By: POL/ECON OFFICER MICHAEL P. ZORICK, REASONS 1.4 (B) AND  
(D).

-----  
SUMMARY:  
-----

¶1. (C) Senior Chadian government officials have succeeded in blocking any discussion of capturing all or some indirect oil revenues generated by taxes and customs fees into an "improved" revenue management scheme for poverty reduction. They see no need to change the current distribution of funds coming from royalties and dividends -- but want the transfers accelerated, and the managing bank changed. World Bank energy and legal team members on the Multi-Donor Mission believe the Bank is unlikely to hold out for a strict oil revenue management scheme in Chad. The Bank will reach a "global agreement" with the Government of Chad (GOC) no matter what, and try to ensure some transparency in the financial flows as a priority. Bank experts are consumed with arguments with the Chadians over the calculation of prices and production quantities, while the big picture of Chad's political-military dynamic drives the GOC to insist on full control over oil revenues. The expected creation of a national petroleum trading company in 2007 will allow the GOC to price and sell its own oil largely shielded from public scrutiny. END SUMMARY

-----  
CONTROL THE MONEY,  
GET IT FASTER  
-----

¶2. (SBU) POL/ECON officer participated in the first days of discussions on oil revenue management, as part of the broader World Bank/IMF-led Multi-Donor Mission seeking to reach a global agreement on public finance reform and poverty

reduction strategy revisions (reftel). Working sessions with the Bank's technical experts and the GOC June 22 and 23 had focused on the terms of reference for the discussions, and on a review and analysis of the various models in use to project oil revenues and their macroeconomic impact.

¶3. (SBU) Where the original terms of reference for the discussions had proposed the formulation of a new oil revenue management scheme, the working group that met June 22 spent the session removing all references to changing the system for oil revenue management from that enshrined in the GOC's January 11 law (no. 02/PR/2006) that had led to the Bank halting disbursements on its projects and freezing the payment of royalties and dividends. The final terms of reference calls only for making "potential improvements" to the existing scheme that defines the distribution of royalties and dividends among the oil fields region, the priority development sectors, and the GOC's general revenue treasury account.

¶4. (SBU) Much more pointed note was taken of the need for a complete review of the procedures by which funds actually pass into GOC hands, with a view toward accelerating transfers to the treasury, and selecting a more "appropriate" banking institution to manage the transit account. Capturing indirect revenues generated by taxes and customs duties into an "improved" revenue management scheme is not on the discussion agenda.

¶5. (SBU) The working group devoted its June 23 session to a technical analysis of a number of economic models used in various ministries and the private sector to project oil revenues and determine prices. GOC participants revealed

considerable distrust in the discussion of the industry's standard contracts for oil deliveries, noting that the contracts allowed for the price Chad receives for its highly acidic product to be routinely lower than that set at the time the oil was loaded for delivery. The GOC's working group president (from the Finance Ministry) brushed aside the Bank's technical expert's careful explanations of the effect of temperature exposure on acid levels, and of the standard nature of the contracts, stating that these problems would be addressed by moving the trading of at least some portion of Chad's oil into a new national petroleum trading company. (NOTE: World Bank team members say the GOC has approved this company's legal statutes, and that trading is to begin in first quarter 2007. END NOTE.)

-----  
THE NEED FOR DATA AND CASH  
-----

¶6. (C) POL/ECON Officer met informally for several hours June 25 with energy and legal experts on the World Bank's oil revenue team to explore what might realistically come of the Multi-Donor Mission. The team readily conceded that the Bank was seen to have caved in to GOC measures to take control of Chad's oil revenues. They said they believed that there was little hope for re-instating the terms of the original oil revenue management program (which covered direct receipts from royalties and dividends), and no hope at all that indirect receipts from taxation and duties would come under the program.

¶7. (C) Team members thought that their GOC counterparts were under enormous pressure to generate revenue numbers that would support a macroeconomic image of a steadily increasing percentage of central government spending on poverty reduction that would satisfy the donors. This led to a deep distrust of the revenue projections coming from private sector models (particularly that used by the banks lending to finance Chad's oil field development). The revenue projections were weaker than the GOC expected; in particular, they were too weak to overcome the effect of stagnation in most of the rest of Chad's economic activities.

-----  
THE BEST AGREEMENT  
MIGHT NOT BE MUCH  
-----

18. (C) But according to the World Bank team leader, Marie Françoise Marie-Nelly (Program Manager -- Chad-Cameroon Pipeline Cluster), the negotiating environment is dominated by a GOC insistence on maximizing immediate revenue transfers. This, she concluded, is driven by Chad's "political-military dynamic." Marie-Nelly speculated that President Deby is counting the months until the transfer of the very large windfall in indirect revenues expected March 2007, and seeking to ensure sufficient arms purchases after the receipt of the last tranche of blocked royalties and dividends from the frozen transit account (totaling some \$150 million over the next three months).

19. (C) The World Bank team believed that these kinds of pressures did not allow for a reasonable discussion, at either the political or the technical level. Were the Bank to dig in its heels, the GOC would simply opt for survival over any gestures toward poverty reduction, and take over all aspects of direct and indirect revenue flow. The best that could be hoped for would be convincing the GOC to accept some transparency in the oil revenue management, through modernization of Chad's public finance system. They noted that, in this regard, the advent of a national oil trading company would be a sort of "black box" within which the

operations of pricing and selling of oil would likely be hidden from scrutiny.

WALL